

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05

SS-15 STR-05 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02

SOE-01 OMB-01 DOE-12 /125 W

-----126978 221915Z /42

R 221652Z DEC 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4238

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

USMISSION GENEVA

USMISSION USNATO

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USEEC, USOECD, USMTN

E.O. 11652: GDS

TAGS: ECON, EFIN, ETRD, PGOV, OECD, GATT, JA, US, GW

SUBJ: US-JAPAN ECONOMIC TALKS

REF: (A) STATE 294485, (B) STATE 299513, (C) STATE

297097, (D) BONN 20749, (E) STATE 304086,

(F) LONDON 20535, (G) BRUSSELS 19133

1. SUMMARY: ECONOMIC COUNSELOR DISCUSSED US-JAPAN ECONOMIC RELATIONS ON DECEMBER 21 AND 22 WITH OFFICIALS OF FRG ECONOMICS MINISTRY AND FOREIGN OFFICE AT DEPUTY ASSISTANT SECRETARY LEVEL. FROM THESE DISCUSSIONS IT IS CLEAR THAT THE GERMANS ARE SUPPORTIVE OF OUR EFFORTS AND HAPPY THAT WE HAVE PUT PRESSURE ON THE JAPANESE. THEY RECOMMEND CONTINUED PRESSURE, BUT THEY ALSO CAUTION

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US THAT THERE ARE TWO RISKS FROM EXCESSIVE PRESSURE:

(A) A SUDDEN SURGE OF IMPORTS INTO JAPAN MIGHT HAVE A DEPRESSIVE EFFECT ON THE JAPANESE ECONOMY, WHICH IS CONTRARY TO BOTH JAPANESE AND WORLD INTEREST; AND (B) THE APPEARANCE OF "GANGING UP" COULD STIR UP DOMESTIC POLITICAL ELEMENTS IN JAPAN, WHICH COULD ALSO HAVE A COUNTER-PRODUCTIVE EFFECT. NEVERTHELESS, ON BALANCE,

WE READ THE FRG COMMENTS AS STRONGLY SUPPORTIVE OF
CONTINUED US PRESSURE ON JAPAN. END SUMMARY.

2. ECONOMIC COUNSELOR HAD LENGTHY DISCUSSIONS BASED ON
REFTELS A, B AND C WITH DEPUTY ASSISTANT SECRETARY
ABRAMOWSKI IN THE FRG ECONOMICS MINISTRY ON
DECEMBER 21 AND FREITAG OF THE FOREIGN OFFICE ON
DECEMBER 22. BOTH THANKED US FOR INFORMING THEM OF
DISCUSSIONS IN TOKYO AND WASHINGTON AND EXPRESSED
GENERAL AGREEMENT WITH OUR APPROACH. THEY WELCOMED
OFFER OF CONTINUING CLOSE CONSULTATION. BOTH SAID
FRG, IN ITS DISCUSSIONS WITH JAPANESE OFFICIALS, HAS
EMPHASIZED THE RISK OF SERIOUS PROTECTIONIST MEASURES
IF THE JAPANESE TRADE BALANCE IS NOT IMPROVED PROMPTLY.

3. BOTH ABRAMOWSKI AND FREITAG POINTED OUT THAT VARIOUS
MEMBERS OF THE EUROPEAN COMMUNITY HAVE DIFFERING TRADE
INTERESTS WITH RESPECT TO JAPAN; FOR EXAMPLE, GERMANY
IS INTERESTED PRIMARILY IN EXPORTS OF INDUSTRIAL
PRODUCTS, WHEREAS OTHER EC COUNTRIES SHARE US INTERESTS
IN AGRICULTURAL EXPORTS. REDUCTIONS OF CUSTOMS DUTIES,
HOWEVER--EVEN IF ACCELERATED UNDER MTN--WILL NOT SOLVE
THE PROBLEM, BECAUSE JAPANESE CUSTOMS DUTIES ARE
ALREADY RELATIVELY LOW.

4. ABRAMOWSKI CALLED ATTENTION TO SEVERE STRUCTURAL
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PROBLEMS RESULTING FROM UNIQUE JAPANESE PRACTICES, SUCH
AS THE MODUS OPERANDI OF THE JAPANESE TRADING HOUSES.
THESE HAVE RESULTED IN JAPANESE IMPORTS OF MANUFACTURED
PRODUCTS BEING LESS THAN HALF AS LARGE A PROPORTION OF
TOTAL JAPANESE IMPORTS AS IS TYPICAL OF ALL OTHER MAJOR
INDUSTRIAL COUNTRIES IN THE WORLD.

5. ABRAMOWSKI SAID THAT THE FRG HAD ENCOURAGED THE
JAPANESE NOT TO BE AFRAID OF REVALUATION OF THE YEN,
MENTIONING THAT THE JAPANESE ARE ONLY "AT THE BEGINNING
OF THIS PROCESS". HE CALLED ATTENTION TO SPECIAL
PROBLEMS RESULTING FROM THE LACK OF FULL INTERNAL
CONVERTIBILITY OF THE YEN, SUCH AS THE PRACTICAL
PROBLEMS CONFRONTED BY JAPANESE TOURISTS RETURNING TO
JAPAN AND WISHING TO CONVERT DOLLARS INTO YEN.

6. BOTH FREITAG AND ABRAMOWSKI AGREED THAT EUROPEAN
AND AMERICAN FIRMS DO NOT MAKE A SUFFICIENT SALES
EFFORT IN JAPAN. ABRAMOWSKI MENTIONED THAT THERE ARE
6,000 JAPANESE IN DUSSELDORF WHO ARE ACTIVELY PROMOTING
JAPANESE EXPORTS. HE RECOGNIZED THAT THE JAPANESE
METHOD OF EXPORT PROMOTION, WHICH IS OBVIOUSLY VERY

EFFECTIVE, COULD NOT BE ADOPTED BY EUROPEAN AND AMERICAN
FIRMS, BECAUSE THE LATTER ARE UNWILLING TO GIVE UP

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THEIR INDEPENDENCE OF ACTION IN THE WAY THAT THE
JAPANESE HAVE DONE. NEVERTHELESS, MORE COULD BE DONE.

7. ABRAMOWSKI AND FREITAG ADVISED AGAINST US AND EC
DEMARCHES WHICH ARE TOO OBVIOUSLY COORDINATED (SEE
REFTEL F), BECAUSE OF THE SENSITIVITY OF THE JAPANESE
NATIONAL CHARACTER TO EXTERNAL DICTATION AND THE RISK
OF COUNTERPRODUCTIVE EFFECTS.

8. FREITAG ALSO REPORTED ON THE STATEMENTS
OF STATE MINISTER VON DOHNANYI AT THE EC COUNCIL IN
BRUSSELS ON DECEMBER 20. VON DOHNANYI SAID THAT THE
MEASURES THE JAPANESE HAVE ALREADY TAKEN, WHILE
HELPFUL, ARE INSUFFICIENT AND THAT A DRASTIC INCREASE
IN JAPANESE IMPORTS IS NECESSARY IF THE MULTILATERAL
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TRADE NEGOTIATIONS ARE TO SUCCEED. VON DOHNANYI EXPRESSED STRONG DOUBTS AS TO THE LIKELIHOOD OF SUCCESS IN REACHING JAPANESE GNP GROWTH GOAL OF SEVEN PERCENT IN 1978. HE EMPHASIZED THE STRUCTURAL PROBLEMS WHICH JAPAN FACES, INCLUDING THE FACT THAT ONE OUT OF FOUR JAPANESE FIRMS IS OPERATING AT A DEFICIT AND THE FACT THAT REAL UNEMPLOYMENT IN JAPAN IS 6.5 PERCENT OF THE LABOR FORCE, RATHER THAN 2 PERCENT AS INDICATED BY OFFICIAL STATISTICS. JAPANESE INDUSTRIAL CAPACITY EXCEEDS DOMESTIC DEMAND IN MANY IMPORTANT SECTORS BY MORE THAN 100 PERCENT.

9. FREITAG ALSO CONFIRMED OTHER ELEMENTS OF THE BRUSSELS DISCUSSION OF THE JAPANESE SITUATION AS REPORTED IN REFTEL G. IN ADDITION TO REPORTING ON JENKINS' STATEMENTS, FREITAG EMPHASIZED THE FRENCH INTERVENTION WHICH URGED THE JAPANESE TO FOLLOW THE EC EXAMPLE OF A LIBERAL TRADE POLICY.
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Message Attributes

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